

**MINUTES OF THE BOARD OF DIRECTORS OF THE TOWN OF GILBERT,
ARIZONA WATER RESOURCES MUNICIPAL PROPERTY CORPORATION BOND
MEETING, MONDAY, APRIL 2, 2018 6:00 P.M., CONFERENCE ROOM 233, GILBERT
MUNICIPAL CENTER, 50 EAST CIVIC CENTER DRIVE, GILBERT, ARIZONA**

BOARD MEMBERS PRESENT: President Noah Mundt, Vice President Kevin Boudreau,
Secretary-Treasurer Bryan Scienza, Director John Wilcock,
and Director Mark Safsten

BOARD MEMBERS ABSENT: None

COUNCIL LIAISON PRESENT: Council Member Jared Taylor

STAFF PRESENT: Kelly Pfost, Management and Budget Director
Finance Director Johanson Johanson, Finance Director
David Polk, Senior Accountant
Patti Hageman, Management and Budget Specialist

CALL TO ORDER

President Mundt called the meeting to order at 6:00 p.m.

OATH OF OFFICE.

None at this time.

ROLL CALL

President Mundt called roll. Management and Budget Specialist Hageman declared a quorum was present.

COMMUNICATIONS FROM CITIZENS

None received.

AGENDA ITEMS

1. **MINUTES** – consider approval of the minutes of the meeting of January 17, 2018.

A MOTION was made by Vice President Boudreau and seconded by Secretary-Treasurer Scienza to approve the minutes of the meeting of January 17, 2018. *Motion carried 5-0.*

2. **BONDS** – Consideration and possible adoption of a Resolution authorizing the issuance of its not to exceed \$42,000,000 aggregate principal amount of Senior Lien Utility System Revenue Bonds, Series 2018, for the purpose of financing various projects for the Town of Gilbert, Arizona; delegating to the Finance and Management Services Director of the Town of Gilbert, Arizona, the authority to determine various terms with respect to such Series 2018 Bonds; providing for the application of the proceeds from the sale of such Series 2018 Bonds; approving the form of and authorizing the execution and

delivery by the corporation of certain documents and approving an Official Statement relating to such Series 2018 Bonds.

Finance Director Johanson provided a brief summary presentation on the Series 2018 Bonds proposal. Finance Director Johanson explained that proceeds of \$42.3M are needed to complete Phase III of the Greenfield Water Reclamation Plant. Due to the premium expected on the bonds, the Town believes that it only needs to issue 13yr bonds with \$37.4M in principal. Sale parameters are expected to be less than 1% for cost of issuance and less than 3.25% for the bond yield. The bond pledge is a combination of Water/Wastewater Utility Revenues. However, repayment will be via SDF revenues. Currently, the Town's S&P ratings are AAA. There was a rating call April 2, 2018, and rating is expected by next week. After speaking with underwriters and consulting experts, the Town decided to go with only one rating, a savings of \$90,000.

Finance Director Johanson presented a comparison scenario detailing if the Town had done Series 2017 in lieu of Series 2018. If the Town had bonded a year ago, it would have borrowed \$43.5M in principal for 20yrs with total cost of principal and interest at \$70.6M. By waiting until the need was fully understood and by taking time to identify the right funding source and structure, the Town determined it only needs to borrow \$42M to complete the project, and the bond can be paid off in 13 years, saving a tremendous amount of interest. It is currently projected that principal and interest for the Series 2018 Bonds will be \$50.5M for a net savings of \$20.1M with the annual payments being almost identical.

Director Safsten asked if that approach reduced risk or because of due diligence there is no additional risk in being so aggressive. Management and Budget Director Pfof stated that one of the risks would be in having to make a higher payment, but the payment is very similar to Series 2017 scenario. The other risk is having an eight year call on Series 2018. Currently Series 2016 has a ten year call, which was standard at the time of issuance, so Series 2016 and Series 2018 will come callable at the same time. However, it was planned that way so the Town could potentially reissue them together allowing for savings on cost of issuance eight years from now. In the end, not more risk, just better knowledge to help Town to take better advantage of all the options.

Finance Director Johanson reviewed the timeline for Series 2018. On April 2, 2018, there was a ratings call, due diligence call, and WRMPC Bond Meeting. S&P rating are expected early next week. On April 19, 2018, Series 2018 will go to Council for approval. Pending approval, the preliminary official statement will be posted around April 20, 2018. Pre-pricing will occur on or about April 30, 2018, and the bonds will sell by the end of that week with closing on May 22, 2018.

Vice President Boudreau asked about questions from S&P concerning Series 2018. Finance Director Johanson said that questions were relatively generic and standard for the industry.

Director Wilcock asked for confirmation that rating won't affect the numbers per say, it would just affect the sale-ability. Management and Budget Director Pfof said that if the Town gets a lower rating, it will pay more in interest. However, Finance Director Johanson said that 3.25% is the max that Town would pay for bond yield based on the established parameters in the official statement.

President Mundt asked if figures on maturity schedule are based upon any specific interest rate. Finance Director Johanson stated that the figures are principal amounts based on projections of premium that Town will be able to demand for bonds where people will pay 110% or 120% of the base value of the bond, but then take a 5% coupon. In essence, it is good faith estimate until sale is finalized.

President Boudreau questioned if the covenants in the resolution were the same as in the past. Jim Stricklin explained that for the 2016 Series, the covenants were redone in a way that got the Town to AAA rating and removed the reserve fund requirement that had been on all previous issues prior to 2016. It is inefficient to have a reserve fund because, for example, the Town may be earning interest of 1% on the funds in reserve, but it would be paying 3% interest on the bond.

Councilmember Taylor asked how many weeks the bond would be on the market. Jim Stricklin said that with approval from the Council on April 19, 2018, the bond would be scheduled to go to market the week of April 30, 2018. However, as the bond is a negotiated sale, there is flexibility on sale date. If there is something going on in the market that is cause for concern or other issue, bond sale can be postponed.

Councilmember Taylor asked if there was any foreseeable event on the calendar between now and April 30, 2018 that might affect rate. Jim Stricklin stated that economic calendar is looked at to see if there is anything on the horizon that could have a significant impact on the market, and they schedule sale around such events if at all possible.

Councilmember Taylor asked if the project comes in under budget, does the Town have to expend the full amount of the bond. Management and Budget Director Pfost stated that the bond amount can't change once the sale closes. However, bond has been structured conservatively so that we are not holding bond funds and paying interest on unnecessary funds for eight years. Any shortfall to complete the project will be paid either in cash using SDF funds.

Director Wilcock asked the difference between the proposed rate of 3.13% and IRS Manager Costs Form 8038 of 2.6%. Jim Stricklin responded that the bond yield number used on IRS Form 8038 is a specific calculation for credit enhancement and does not take into account the cost of issuance. The IRS wants lower rate because there are limitations during the construction period for reinvesting bond funds, and it is also the official rate used for rebate calculations if too much interest is earned. In essence, the IRS wants to suppress interest number so there is less ability to arbitrage funds until expended as declared. Antti Suhonen added that there are tax regulations that specifically dictate the timeframe in which bond monies must be spent. There is a reasonable expectation that when the bonds are issued the money will be spent within three years of the date of issuance, and, if for whatever reason, those monies aren't spent the IRS may question if the bond was issued in arbitrage. If so, some of the interest earned on the bond is owed to the IRS. A tax certificate, included as part of the legal documentation, sets out our expectations as to how the money is going to be spent, benchmarks and rebate exceptions. Part of tax compliance process after the bond is issued is to make sure that all of the requirements in the tax certificate are met so the Town does not have to pay back any interest it may earn to the IRS.

Director Wilcock questioned the miscellaneous fee of \$10,000. Jim Stricklin stated that not all numbers are known when papers are drawn up so it is a good faith estimate. Any leftover funds will go over to the debt service account.

Director Safsten questioned if the services that the Town uses are bid every year or if the same agencies are used each year. Finance Director Johanson stated that from time to time an RFP is done to examine competitive value of agencies used. Management and Budget Director Pfof stated that the Town also regularly checks to make sure that our agencies are competitive with other agencies under state contracts.

Director Wilcock questioned why bond is being sold as negotiated over competitive. Finance Director Johanson said that on national scale, our MPC structure is a little unique. There are other things in other states that are similar, but we are trying to reach those buyers who our underwriters are able to work with to help them understand pledge and the product. Jim Stricklin added that the majority of all bonds, 70%, percent, go negotiated.

A MOTION was made by Vice President Boudreau, seconded by Director Safsten, to approve the bond. *Motion carried 5 – 0.*

FUTURE AGENDA ITEMS/MEETINGS:

3. Identify future agenda items

None at this time.

COMMUNICATIONS

4. From the PRESIDENT on current events.

None.

5. From the BOARDMEMBERS on current events.

None.

6. From the COUNCIL LIAISON on current events.

None.

7. From STAFF on current events.

None.

ADJOURN

A MOTION was made by Director Safsten, seconded by Secretary-Treasurer Scienza to adjourn the meeting. *Motion carried 5-0.*

The meeting was adjourned at 6:48 p.m.

ATTEST:

Noah Mundt, President

Bryan Scienza, Secretary-Treasurer

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the bond meeting of the Town of Gilbert Arizona Water Resources Municipal Property Corporation was held on the 2nd day of April 2018. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this ____ day of _____.

Bryan Scienza, Secretary-Treasurer